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91177



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## Level 2 Accounting, 2015

### 91177 Interpret accounting information for entities that operate accounting subsystems

2.00 p.m. Friday 20 November 2015  
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Interpret accounting information for entities that operate accounting subsystems.	Interpret accounting information in depth for entities that operate accounting subsystems.	Interpret accounting information comprehensively for entities that operate accounting subsystems.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

**You should attempt ALL the questions in this booklet.**

Pull out Resource Booklet 91177R from the centre of this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–8 in the correct order and that none of these pages is blank.

**YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.**

Merit

TOTAL

16

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Refer to **Resources A, B, and C** in **Resource Booklet 91177R** when answering the questions.

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## QUESTION ONE

*Perfect Pies* is owned by Ashlee. The business bakes and sells pies in its shop, and also supplies pies on credit to sports clubs throughout New Zealand.

- (a) Complete the table of analysis measures below using **Resource A** and **Resource C**. (Round your answer to one decimal place where necessary, and ignore GST.)

**Analysis Measures for *Perfect Pies***

Analysis Measure	2014	2015
Mark-up percentage	30%	30 %
Inventory turnover	41.3 times	45.2 times

- (b) Justify why **sales volume** is important to the profitability of a business like *Perfect Pies*.

In your answer, use information from the table above and **Resource C** to explain:

- what the mark-up percentage in 2015 means for pies that cost \$3 to produce, and the **amount** of gross profit on **each** pie
- the meaning of the inventory turnover in 2015
- why it is important that with a low mark-up percentage, *Perfect Pies* has a high inventory turnover
- how the trend in inventory turnover has contributed to improved profitability.

A mark-up percentage of 30% in 2015 for *Perfect Pies* means that for every dollar it cost *Perfect Pies* to produce their pies, 30 cents has been added on to of that to get the selling price. This means that for ~~pr~~ each pie produced by *Perfect Pies* that cost \$3.00 to produce, Ashlee has added a further 90 cents on top of that <sup>as markup</sup> ~~for~~ to get the selling price of \$3.90. This means that for every pie, *Perfect Pies* sell, they are making 90¢ as gross profit. The inventory turnover is the amount of times a business can



sell out of goods and restock again within the year. Perfect Pies inventory turnover of 45.2 times in 2015 means that Perfect Pies was able to sell all ~~of~~ of their products and then restock again 45.2 times ~~out~~ within that accounting period. It is important that with such a low mark-up percentage that Perfect Pies has ~~the~~ such a high inventory turnover as by having such a low mark-up Perfect Pies aren't making very much profit off sales meaning that sales need to be more frequent in order to continue profits flowing into Perfect Pies to allow their company to not only build profits quicker ~~by~~ but to allow Perfect Pies to maintain a successful business. The trend in inventory turn-over in 2014 of 41.3 times to 45.2 times in 2015 is very satisfactory and has contributed to improved profitability as it means that Perfect Pies are turning inventory over quicker than last year meaning they are selling more pies. The increase in sale volume is important to the profitability of Perfect Pies as seeing they don't put much mark-up on their goods, in order to improve the profitability of ~~the~~ Perfect Pies, they must make a large number of sales in order to maintain profits coming in.



## QUESTION TWO

- (a) Complete the table of analysis measures below, using **Resource A** and **Resource B**. (Round your ratio answer to two decimal places.)

Analysis Measures for *Perfect Pies*

Analysis Measure	2014	2015
Equity ratio	0.76:1	0.81:1
Administrative expense percentage	10.3%	9%
Rate of return on total assets	8.8%	13.9%

In April 2014, Ashlee decided to invest more into her business. She wanted to improve the dining area of her shop for customers, upgrade the ovens used for cooking the pies, and improve the layout in the kitchen.

- (b) Justify why Ashlee's decision to invest more into *Perfect Pies* has been successful by:
- (i) Explaining how the equity ratio shows that Ashlee has invested more into the business.

Ashlee's decision to invest more into *Perfect Pies* has been successful because as we can see it has improved her equity ratio of 0.76 : 1 in 2014 to 0.81 : 1 in 2015. An equity ratio of 0.81 : 1 for *Perfect Pies* means that for every dollar of assets owned by *Perfect Pies*, Ashlee has contributed 81 cents. By investing more money into *Perfect Pies*, Ashlee has improved her equity ratio and having contributed 81 cents to every dollar of assets, putting *Perfect Pies* in a very good position financially.

- (ii) Explaining why the trend in the administrative expense percentage is positive, and the reason for this, using information from **Resource B** and **Resource C**.

As we can see there has been a negative trend in the administrative expense percent from 10.37% in 2014 to 9% in 2015. This is a positive trend as it means there has been ~~only~~ for every dollar of profits for Perfect Pies, only 9 cents has been ~~\$~~ incurred for expenses. This means that in 2015, Perfect Pie made less administrative expenses increasing the gross profit of the business showing why it's a positive trend.

- (iii) Explaining what the **trend** in the rate of return on total assets shows, AND how Ashlee's decision has achieved this, using information from page 4, **Resource B**, and **Resource C**.

Perfect Pies has shown a ~~satisfactory~~ trend ~~from~~ in the rate of return on total assets from 8.8% in 2014 to 13.9% in 2015. This shows that for every dollar of Assets owned by Perfect Pies, the business is making a return of 13.9 cents, which is much quicker than 2014 88. By increasing rate of return, Ashlee increased the rate at which the assets were generating profits for Perfect Pies. Ashlee's decision improved this as by improving the standard/look of her store, it was more appealing to customers, meaning more people came in and purchased goods. Accounting 91177, 2015 showing how it increased her rate of return on assets.

M5



## QUESTION THREE

- (a) Complete the table of analysis measures below, using **Resource A** and **Resource C**. (Round your answer to two decimal places for current ratio, and up to the nearest day for age of accounts receivable.)

Analysis Measures for *Perfect Pies*

Analysis Measure	2014	2015
Current ratio	3.17:1	3.33:1
Age of accounts receivable	32 days	28 days

*Perfect Pies* credit terms are 30 days from date of delivery. Ashlee uses the following procedures to manage her accounts receivable:

- sends out monthly statements to sports clubs that order pies from her on credit
- sends out reminders for overdue accounts.

- (b) Justify why *Perfect Pies* is in a strong position in terms of liquidity.

In your answer, explain:

- what the current ratio for 2015 means
- what the age of accounts receivable calculation for 2015 means
- how the procedures Ashlee uses effectively manage her accounts receivable
- how the trend in the age of accounts receivable enhances *Perfect Pies* liquidity position.

*Perfect Pies* is in a strong position in terms of liquidity as they have the ability to easily pay off their debts. The current ratio of 3.33:1 in 2015 means that for every dollar of current ~~assets~~ <sup>liabilities</sup>, *Perfect Pies* has \$3.33 in current Assets to cover them meaning that they will easily be able to ~~to~~ meet their short-term debts. The age of accounts receivable of 28 days for 2015 mean that on average, after purchasing goods from *Perfect Pies* on credit, it took the customers only 28 days to pay.



off their debts. This shows how the procedures are effectively in managing her accounts receivables for Perfect Pies as by doing so she has made sure that the accounts are paid off by the customers on time - in factor on average before due - to ensure that Perfect Pies receives this income from credit customers to keep profits coming into Perfect Pies. The trend in age of accounts receivable ~~where~~ enhances their liquidity position as it means the profits of their Credit sales are coming into Perfect Pies quicker meaning the funds are available to be used to pay of any debts if needed and also reduces the risk of Perfect Pies running out of funds to cover their debts as money is returning into the entity at a higher rate. By making it easier to manage the debts of Perfect Pies this shows how the increase in the trend enhances Perfect Pies ~~B~~ liquidity position.

Merit exemplar for 91177 2015			Total score	16
Q	Grade score	Annotation		
1	M6	Correctly explains that a high inventory turnover is needed with a low markup percentage to generate sufficient gross profit and uses the 45.2 as an example of the inventory turnover increasing from 2014 – 2015. The student then goes on to link this to improved profitability for <i>Perfect Pies</i> . The only reason for not awarding higher grades is the lack of reference to the dollar values for Gross Profit and/or Net Profit.		
2	M5	In part (i), a general explanation for the increased equity ratio is given – “contributing more assets”. No specific reference is made to the type of assets eg more attractive dining furniture. In part (ii), a general comments if given on the trend in administrative expenses. In part (iii), a detailed and specific explanation is given for the increased rate of return but no reference to specific dollar amounts is given, precluding a higher grade.		
3	M5	The procedures that <i>Perfect Pies</i> used are only generally referred to, but the explanation of current ratio and its effect on cash flow are well explained. This is complemented by a detailed explanation of the effect of the decreased age of accounts receivable on the liquidity situation of <i>Perfect Pies</i> and how it has improved because the cash from credit sales is being collected more quickly.		